MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2017/2018

BAC2664 – AUDITING

(All sections / Groups)

15th MARCH 2018
9.00 a.m. - 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 6 pages excluding cover page with 5 Questions only.
2. Attempt all **FIVE** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

a) Yasmin and her audit team are performing the year-end audit for Auto Supplies Sdn Bhd. She is reviewing the working papers and she wants to ensure that essential audit tests of inventory are well documented.

Required:

i) Identify three major steps in assessing control risk in the inventory management process.

(3 marks)

ii) State four procedures the auditor should perform during the count of the client's physical inventory.

(4 marks)

iii) Describe five substantive tests that Yasmin should expect to find in the working papers to document management's assertion about completeness for the year-end inventory.

(5 marks)

b) Raju, an audit partner of Raju & Co, has accepted an engagement to audit the financial statements of Berjaya Manufacturing Company. This new client has adequate control environment and reasonable segregation of duties. Raju is about to set the control risk for the assertions related to Berjaya's property, plant and equipment before he can focus on substantive analytical procedures and tests of details of transactions, account balances and disclosures.

Required:

i) Identify five (5) key internal controls related to Berjaya's property, plant and equipment that Raju may consider in setting the control risk.

(5 marks)

ii) Discuss any three (3) substantive analytical procedures that can be used to audit property, plant and equipment.

(3 marks)

(Total: 20 marks)

QUESTION 2

a) Junaidi is the external auditor for ABC Berhad. He was not allowed by the company's secretary to attend the Annual General Meeting of ABC Berhad.

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Required:

i) Explain the rights of the auditor under the Companies Act (CA)2016.

(4 marks)

ii) Discuss Junaidi's course of actions in handling the above issue; in line with CA 2016.

(6 marks)

b) The staffs in the accounting department have given Junaidi access to Accounts Payable files but not Accounts Receivables and the asset register files despite Junaidi has requested many times. The accountant said the files are confidential therefore, strongly refused to give the files to the auditor.

Required:

Give your opinion with reference to CA2016 and the possible actions by Junaidi (including the legal implications to the client company).

(10 marks)

(Total: 20 marks)

QUESTION 3

A) Anggun Berhad is a large discount catalogue department store chain. The company has recently expanded from 6 to 43 stores by borrowing from several large financial institutions and from a public offering a common share. A recent investigation has disclosed that Anggun Berhad materially overstated net income. This was accomplished by understating accounts payable and recording fictitious supplier credits that further reduced accounts payable. The Securities Commission (SC) is very concerned about the case and conducted investigation of the evidence gathered by Anggun's audit firm Teraju & Co in testing the accounts payable and the supplier credits.

The following is a description of some of the fictitious supplier credits and unrecorded amounts in accounts payable as well as the audit procedures:

i) Zumba Advertising Credits- Anggun Berhad had arrangements with few vendors to share the cost of advertising the vendor's product. The arrangements were usually agreed to in advance by the vendor and supported by evidence of the placing of the advertisement. Anggun Berhad created a 120 pages list of approximately 1, 200 vendors, supporting advertising credits of RM300,000. Anggun's auditors selected a sample of 4 of the 1,100 items for direct confirmation. One item was confirmed by telephone, one traced to cash receipts, one to a vendor credit memo for part of the amount and cash receipts for the rest and one to a vendor credit memo. Two of the amounts confirmed differed from the amount on the list but the auditors did not seek an explanation for the differences because the amounts were not material.

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The rest of the credits were tested by selecting 20 items (one or two from each page of the list). Twelve of the items were supported by examining the advertisements placed and eight were supported by Anggun Berhad debit memos charging the vendors for the promotional allowances.

ii) Alvin Credits- RM130,000 in credits based on 35 credit memoranda from Alvin Sdn Bhd were purportedly for the return of overstocked goods from several Anggun Berhad's stores. The auditor noted the size of the credit and that the credit memos were dated subsequent to year-end. He further noticed that a sentence on the credit memos from Alvin had been removed by a marker. When held to the light, the accountant could read that the removed sentenced read, 'Do not post until merchandise received.' The auditor called Alvin and the senior accountant to get further explanation. The auditor was informed that the RM130,000 in goods had not been returned and the money was not owed to Anggun Berhad by Alvin. Ahmad, the president of Anggun Berhad advised Ali the audit partner that he had talked to Alvin, who claimed he had been misunderstood by the auditor. Ahmad told Ali not to have anyone call Alvin to verify the amount because of pending litigation between Anggun Berhad and Alvin Sdn Bhd.

Required:
Identify and explain the deficiencies in the sufficiency and appropriateness of the evidence gathered in the audit of the accounts payable of Anggun Berhad (Zumba Advertising Credits and Alvin Credits must be explained separately).

(8 marks)

B) You are the senior in-charge for the audit of Rezeki Sdn. Bhd. Since you were assigned to another client, you delegated the responsibility to prepare the audit report to the audit junior. The audit junior drafted the audit report which read as follows:

INDEPENDENT AUDITOR'S REPORT OF REZEKI SDN. BHD.

The attached financial statements have been audited by us. We certify that the financial statement gives a fair and reasonable view of the directors' report, income statement, and statement of financial position for the year ended 31 December 2017. Our opinion also included the proper maintenance of documents and records and our belief that all the relevant Sections and Ninth Schedule of the Companies Act 2016 have been complied with.

Firma, Firm & Co Chartered Accountant.

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Required:
Identify and explain six (6) errors or omissions that have been made by the audit junior in drafting the audit report. (6 marks)

C) Consider the following independent situations:

i) The newly appointed auditor of Rainbow Sdn. Bhd. did not observe the counting of the physical inventories as of 31 December 2017. This was due to the fact that the date of the count was conducted prior to the date of Annual General Meeting. The inventory represents a substantial proportion of the shareholders' fund in the financial statements and the management disagrees to the auditor's request of physically inspecting those material items and reconciling to the statement of financial position date.

ii) As the audit manager for the audit of Zest Sdn. Bhd, you found many significant irregularities in the internal controls and misstatements involving purchases, accounts payable, inventories, and cash payments.

iii) Mercu Sdn Bhd a subsidiary of Lego Berhad. Mercu Sdn Bhd has incurred a net loss of RM10 million for the year ended 31 December 2017. The only liability is the amount due to Lego Berhad of which Lego Berhad gave assurance that it will not demand payment within the next 12 months. This matter was adequately disclosed in the notes to the accounts.

Required:
State and explain the types of audit opinion that should be issued for each of the above situations and their reasons. (6 marks)
(Total: 20 marks)

QUESTION 4

Items below are selected questions found in internal control questionnaires used by auditors to obtain an understanding of internal control in the payroll and personnel cycle:

i) Does an appropriate official authorize initial rates of pay and any subsequent changes in rates?

ii) Are formal records such as time cards used for keeping time?

iii) Does anyone verify pay rates, overtime hours and computation of gross payroll before payroll cheques are prepared?

iv) Are employees required to show identification to receive paycheques?

Continued...

v) Are written notices required documenting reasons for termination?

Required:

a) For each of the five items above, state the transaction-related audit objective(s) being fulfilled if the control is in effect. (5 marks)

b) For each control, list a test of control to test its effectiveness. (5 marks)

c) For each of the items above, identify the nature of the potential financial misstatement(s) if the control is not in effect. (5 marks)

d) For each of the potential misstatements in part c), list a substantive audit procedure for determining whether a material misstatement exists. (5 marks)

(Total: 20 marks)

QUESTION 5

a) It is the practice of public practitioners to issue letters to their clients at the time of engagement, in which they set out the terms of the engagement. Once agreed by the client, the engagement letter will remain effective until superseded by a new letter.

Required:

i) State three (3) purposes of the engagement letter. (3 marks)

ii) State three (3) circumstances that require the auditor to issue a new engagement letter. (3 marks)

b) The partner's involvement in the audit planning is important in order for the firm to have a level of knowledge of the client's business that may have a significant effect on the financial statements.

Required:

i) List three (3) purposes of audit planning. (3 marks)

ii) Explain the importance for the partner to be involved in planning the audit. (2 marks)

iii) Explain four (4) methods and sources of information for the auditor to obtain sufficient knowledge of the client's business. (4 marks)

Continued...

c) The preliminary analytical procedures on the draft financial statements submitted by the client indicated that the average collection period of 60 days is inconsistent with the policy of the client to grant credit for 7 days.

Required:
Explain two audit procedures that could be performed by the auditor to investigate the above inconsistency.

(2 marks)

d) Global Sdn Bhd is involved in the transportation and logistics business. You are the audit junior assigned to the sales audit of the company.

Required:
Identify and explain three (3) types of assertions for the tests of controls on sales transactions.

(3 marks)
(Total: 20 marks)

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